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SUBJECT: PRESIDENTIAL ADVISORS ON POLITICAL SCENE

Classified By: Political Counselor Alexander Margulies. Reason: 1.4(b)/d).

1. (C) SUMMARY: Two top presidential political counselors recently reviewed the political scene with Polcouns. They were optimistic that President Alejandro Toledo and the GOP will work out a modus vivendi with the opposition parties on a new Congress President and a smooth transition to the successor government, that electoral code revisions will be passed to prevent minor parties from obtaining an undue number of congressional seats in 2006, and that the governing Peru Posible party's prospects in the upcoming elections are brightening. While Cabinet changes are forthcoming in July, the advisors agreed that Prime Minister Carlos Ferrero is likely to stay on until October, when he must resign in order to run for re-election to Congress. END SUMMARY.

2. (C) Polcouns met with Presidency Political Advisor Juan de la Puente on 6/21 and lunched with Labor Minister Juan Sheput on 6/27. The discussions in both meetings concentrated on the current political scene and the prospects for the 2006 election and addressed the following specific issues:

-- POLITICAL STABILITY: The political situation has stabilized following the opposition's unsuccessful attempt to sanction Toledo over the false signatures scandal. Both de la Puente and Sheput said that they were personally involved in discussions with the opposition APRA party and Unidad Nacional alliance to work out a modus vivendi on governability and a transition to the successor government in 2006. This will entail agreement on a new President of Congress to be elected in late-July, as well as the opposition's acceptance of a new Prime Minister.

-- NEW CONGRESS PRESIDENT: De la Puente and Sheput said that there was general agreement between the three big parties that they should agree on a consensus candidate in order to marginalize the smaller blocs as well as the 30 legislators who have abandoned the parties that brought them to office. According to de la Puente, no consensus candidate has yet been agreed on. He said that all could support current Congress President Antero Flores-Araoz, but that the latter is weighing a bid for the national presidency and may not seek re-election. Sheput, on the other hand, insisted that 2003-2004 Congress President Henry Pease (Peru Posible) has been decided upon. (COMMENT: Sheput may be engaged in wishful thinking. Our recent contacts with APRA legislators indicate that this issue is still up in the air. END COMMENT.)

-- NEW PRIME MINISTER: De la Puente stated that we should expect to see Prime Minister Ferrero remain in office well past July, conceivably until the first week of October, when he will have to resign in order to be eligible for re-election to Congress. He explained that Toledo is comfortable with Ferrero, that Ferrero is happy with his job, that there is no one else who looks like a good fit, and that rumored successor Henry Pease may be the front-runner to succeed Ferrero, but that Pease can be a difficult character to work with. Sheput agreed that Ferrero will stay on for the time being, and would not speculate on a possible successor.

-- OTHER CABINET CHANGES: Other than Finance Minister Pedro Pablo Kuczynski, whose imminent departure is common knowledge within the GOP, de la Puente and Sheput agreed that Foreign Minister Manuel Rodriguez is almost certain to depart in July. De la Puente said that Rodriguez would be sent as Ambassador to either Paris or Geneva. He also predicted that Defense Minister Roberto Chiabra and Interior Minister Felix Murazzo would be sent packing; Chiabra over his recent complaints regarding the Finance Ministry's unwillingness to release funds for the Armed Forces and Murazzo over his tendency to look out first for the parochial interests of the National Police (he was previously National Police Commander) rather than for those of the GOP. Sheput would not identify specific ministers destined for the chop, but suggested that a recent article in daily "La Republica" was close to the mark. That article looked at the popularity, relations with the President and political weight of Cabinet members, indicating that Rodriguez, Murazzo, Chiabra, and Agriculture Minister Manuel Manrique are vulnerable.

-- ELECTORAL LAW CHANGES: Both de la Puente and Sheput

placed great importance on proposed changes to the electoral law, principally the initiative to require parties to garner five percent of the national vote in order to place candidates in Congress. They viewed this revision as essential to prevent smaller parties (currently 27 parties are registered to run candidates for Congress) from allying themselves with regional movements and electing 1-2 legislators each, which would result in a badly fractured Congress. They were optimistic that his proposal will eventually pass, as the major parties are in favor of it. They also supported a proposal to eliminate the "preferential vote" (voters cast ballots for parties, then select two individual "preferences" among the candidates of the party they chose; parties are then awarded seats based on their proportional vote within each Department, with the seats awarded to the party's candidates who receive the most preferential votes) as this weakens the parties' control over who is elected to office. They were pessimistic that this initiative would pass, however, given that all legislators benefitted from the "preferential vote" in gaining election to Congress.

-- GOVERNMENT ALLIANCE: De la Puente expressed discomfort over the actions of Fernando Olivera, the leader of the GOP's junior coalition partner the Independent Moralizing Front (FIM) and Peru's Ambassador to Spain. He blamed Olivera and FIM legislator/Chairman of the Congressional Foreign Relations Committee Gustavo Pacheco for problems in the relations between Toledo and Foreign Minister Rodriguez, and viewed the FIM as more of a hindrance than a help. He did not, however, indicate that the alliance was in danger. Sheput, on the other hand, stated that Toledo is warming to advice from the Labor Minister and other members of the "Hard Wing" of Peru Posible (which includes Prime Minister Ferrero) to ditch Olivera and the FIM after the July 28 State of the Nation address. Sheput argued that Olivera and his party will break with the GOP, and the Government will earn political points if it acts first. He added that the ongoing talks on governability and a smooth transition will be facilitated with Olivera's ouster, as both APRA and Unidad Nacional leaders are unwilling to enter into an arrangement with the GOP so long as Olivera maintains his influence.

-- STATE OF THE NATION ADDRESS: De la Puente said that he is pushing for Toledo to make a visionary speech, looking ahead to the election year and the transition, rather than resort to the usual listing of public works carried out over the previous twelve months. Sheput stated that Toledo has bought into this concept, but will also use a power-point presentation to demonstrate how successful his government has been in comparison to the five previous governments in promoting economic growth, job creation and poverty reduction. He added that the President saw a videotape of Colombian President Alvaro Uribe's last speech to the nation and was captivated by how Uribe used visual aids to emphasize and illustrate his points.

-- THE 2006 ELECTION: De la Puente's major concern with the 2006 election lay in preventing smaller parties from winning seats and creating a fractionalized legislature that would threaten governability. Sheput was enthusiastic about Peru Posible's electoral prospects. Economic growth is trickling down to the masses, he explained, and Finance Ministry experts predict that this effect will really be seen in November, just in time for a happy Christmas season and a promising prelude to the April first round of balloting. He noted that Toledo's popularity is inching up (rising to 16 percent in the most recent Lima poll) and that Peru Posible strategists now see their party as winning a minimum of 15-20 seats in the next Congress, vice the 5-10 seats they foresaw only a few months ago. The party has learned its lesson from its current crop of unmanageable legislators, he added, and will not turn to local personalities to stand as candidates as it did in 2001. Instead, Sheput declared, it will turn to qualified and respected candidates with a demonstrated loyalty to the party. He thought that Finance Minister Kuczynski could be prevailed upon to run on Peru Posible's congressional slate, but doubted that he would make a presidential bid, noting that Kuczynski's dual Peruvian-U.S. citizenship would sink his chances in the provinces. He also discounted the possibility that Housing Minister Carlos Bruce would run for President, lamenting that while Bruce is the most popular minister and could have a chance of winning, the Housing Minister prefers to settle for a certain congressional seat.

13. (C) COMMENT: The read-outs by de la Puente and Sheput provide a good indication of how the GOP views the political situation and prospects. We tend to suspect that de la Puente is more on the mark as to the actual state of play, while Sheput reflects where the GOP hopes to steer matters. Their optimistic assessments of the GOP's current position and of its chances of achieving its political objectives is a welcome change from the relatively pessimistic views that both have expressed in the past. With elections but nine months away the country's focus is now on who will be the

next government, giving the GOP a welcome respite. Whether Toledo and his administration can take advantage of this to cement an accord on governability and a smooth transition remains to be seen. END COMMENT.
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